

Financial markets survey

29 September 2014

Everything's down

WEEKLY ISSUE

GLOBAL MARKETS

The leading stock platforms across the world finished the previous week in the red. Pessimistic moods returned as a result of the escalating situation in the Middle East and weak statistical indicators.

Tension on the American stock platforms was high already at the beginning of the previous week, when the US together with allies from Arab countries made a series of air attacks against positions of the Islamic State Group in Syria not far from the border with Iraq. During the following days, moods of investors did not improve. Unexpectedly good statistical data on the US real estate market were leveled out by weak indicators of the labor market and orders for durable goods.

European markets rolled back even more significantly. The British FTSE 100 Index registered decline both in monthly terms and since the beginning of the year. Investors are concerned about depreciation of the European currency. Statistical indicators that came in during the previous week only deepened the pessimistic moods.

In September 2014, the Business Confidence Index in France was record-low over the last thirteen months, which is no wonder, since the country's economy has been stagnating for two consecutive quarters. The Business Confidence Index in Germany fell record-low over the last eighteen months and turned out to be worse than expected.

President of the European Central Bank Mario Draghi stated that the economy was losing impetus to growth, while the rate of unemployment was unacceptably high. At the same time, other ECB representatives think that it will be possible to manage without new incentives for the economy against the background of the euro exchange rate appreciating against the US dollar during the last months.

If the Ukrainian-Russian conflict and the situation in the Middle East do not receive a new round of developments during the current week, investors' attention will likely be focused mainly on statistical data and corporate news.

STOCK MARKETS

Index	last	week ch.	mon. ch.	YTD
S&P 500 (US)	1982.9	-1.4%	-0.9%	7.3%
FTSE 100 (UK)	6649.4	-2.8%	-2.7%	-1.5%
MXME (East. Eur.)	167.6	-2.2%	-7.0%	-16.3%
UX (Ukraine)	1090.5	4.4%	-12.9%	19.8%
RTS (Russia)	1156.2	-1.2%	-8.3%	-19.9%

COMMODITIES

Commodity	last	week ch.	mon. ch.	YTD
Wheat, USD/ton	190.0	-0.8%	-1.3%	-27.1%
Steel, USD/ton	500.0	-2.0%	-1.8%	-1.2%
Oil, USD/barrel	97.0	-1.4%	-5.6%	-12.5%
Gold, USD/ounce	1219.0	0.2%	-4.9%	1.2%

Source: Thomson Reuters

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MACROECONOMICS

Wages

Real wages continued to shrink at an accelerating pace in August. According to information of the State Statistics Service, real wages in Ukraine dropped 12.7% in August 2014 compared to August 2013. Over January-August, real wages dropped 3.1%.

As before, wages shrank the most in Donetsk and Luhansk oblasts, where business activities of many companies were seriously reduced or stopped as a result of hostilities. In August 2014, real wages shrank 32.3% year-on-year in Donetsk oblast and 30.6% year-on-year in Luhansk oblast.

In August 2014, the average monthly wage of full-time employees totaled UAH 3,370. The lowest wages were registered in Ternopil, Chernivtsi, and Kherson oblasts, while the highest wages were observed in the city of Kyiv, Kyiv and Dnipropetrovsk oblasts.

Unemployment rate

According to information of the State Statistics Service, the rate of unemployment (in accordance with the International Labor Organization methodology) was 8.6% in the first half of 2014. Compared to the first half of 2013, the rate of unemployment grew 1.0 percentage point. The main reason for growing unemployment was accelerating recession of the Ukrainian economy.

In H1'2014, the rate of unemployment grew to 6.8% compared to 6.3% in H1'2013. Similar indicators for male population landed at 10.1% and 8.7% respectively. Unemployment grew faster in rural areas than in urban areas. The rate of unemployment among urban population totaled 8.3% in the first half of 2014 and 9.2% among rural population. Similar indicators for the first half of the previous year were 7.4% and 7.8%.

The highest rate of unemployment was registered in Zhytomyr, Chernihiv and Ternopil oblasts, while the lowest – in the city of Kyiv, Kyiv and Dnipropetrovsk oblasts.

BOND MARKET

Last week, the Ministry of Finance managed to raise a relatively serious amount of resources – UAH 1.4 billion – to the State Budget of Ukraine by way of selling internal government bonds. However, in our opinion, these placements involved state-owned banks.

At a tender held on 23 September, the Ministry of Finance placed bonds maturing in one year with an earning rate of 17.50% per annum for the total of UAH 471.7 million. Next day, two participants in a tender purchased internal government bonds maturing in ten years and yielding 15.50% per annum for the total of UAH 930 million. The fact that bonds maturing in ten years were sold with a lower earning rate than bonds maturing in one year points to non-market nature of these tenders.

Our analysts do not expect that the situation on the internal borrowings market will seriously change in the near future. There will be no demand for government securities. This is the reason why the Ministry of Finance will continue the practice of placing bonds among state-owned banks in the amounts that will be needed to cover the current needs of the country.

During the current week, the Ministry of Finance plans to hold a tender on 29 September. The Ministry of Finance will offer bonds denominated in hryvnia and maturing in seven years.

LATEST MACROECONOMIC DATA

Indicator	Value
Change in real wages in August 2014, % year-on-year	-12.7
Unemployment rate (ILO methodology) in H1'2014, %	8.6

Source: the State Statistics Service

THE RESULTS OF PLACING INTERNAL GOVERNMENT BONDS

Date of placement	Type of bonds	Weight. av. rate	Submit./satisfied bids	Funds raised. UAH mln
23 Sept.	364 days	17.50%	1/1	471.7
24 Sept.	3640 days	15.50%	2/2	930.0

Source: the Ministry of Finance of Ukraine

NBU OPERATIONS

Last week, the official hryvnia exchange rate against the US dollar appreciated. The lowest UAH/USD exchange rate set by the National Bank was registered on Tuesday, 23 September, at UAH 13.53/USD. Over the subsequent days, the exchange rate appreciated gradually and stopped at UAH 12.91/USD on Friday, 26 September. The exchange rate appreciated as a result of the NBU's efforts to resort to administrative control of the exchange rate. Next weeks should demonstrate how successful the regulator's efforts will be to control depreciation of the hryvnia, while its new round has been witnessed since the second half of August.

On 29 September, the NBU held an interest-bearing tender to refinance banks. As a result of this tender, the NBU satisfied bids of two banks for the total of UAH 73.3 million with a weighted average interest rate of 18.16% per annum.

The National Bank of Ukraine managed to raise UAH 60.2 billion by way of placing certificates of deposit. The NBU placed overnight certificates of deposit for the total of UAH 37.9 billion. The annual interest rate for overnight certificates of deposits stood at 7.50%. In addition to overnight loans, certificates of deposit for the period from five to fourteen days also enjoyed demand. The longest term of a deposit certificate placed during the previous week reached 85 days (for the total of UAH 100 million with a 12% annual interest rate).

EQUITY MARKET

Last week, the Ukrainian stock market managed to slightly restore its positions. By the end of the previous week, the Ukrainian Exchange (UX) Index grew 4.4% and closed at 1,090.50 points on Friday, 26 September.

Market growth was of technical nature, since there were no fundamental reasons for an improvement in moods of Ukrainian stock market investors. Statistical data demonstrates that the country's economy is getting worse, while the conflict in the eastern part of the country is far from being resolved.

If the political situation does not seriously improve, the Ukrainian Exchange Index is likely to remain flat.

FOREIGN EXCHANGE MARKET

At the beginning of the previous week, 22-23 September, trading on the interbank foreign exchange market was carried out at the UAH 13.50/USD exchange rate. Over 24-26 September, the exchange rate appreciated to UAH 12.95/USD. However, foreign exchange demand remained very high. To meet the demand, the National Bank held foreign exchange tenders on Tuesday, where the cutoff exchange rate was UAH 13.75/USD, and on Wednesday, where the cutoff exchange rate was UAH 12.95/USD. Trading on the interbank foreign exchange market was practically absent because there was no foreign exchange supply on the market. The current situation results in daily accumulation of foreign exchange demand.

The maximum foreign exchange sales volumes were registered on Thursday, 25 September: above USD 0.45 billion (all currencies), including sales of the American currency alone for the total a little

THE UX INDEX



Source: Thomson Reuters

INTERBANK LENDING MARKET

Last week, the cost of overnight loans went up and reached 6-8% per annum. The cost of weekly resources stood at 6-9% per annum. Lending resources longer than one week were not offered. The cost of resources remains high due to high risks, which are the result of the current political situation. The balance on correspondent accounts remained at a relatively high level and set a local record-high, at UAH 41.4 billion, on Tuesday, 23 September. As of Friday morning, 26 September, the balance on correspondent accounts totaled UAH 29.8 billion.

WEIGHTED AVERAGE EXCHANGE RATE (UAH/USD)



Source: NBU

UKRAINE'S MACROECONOMIC INDICATORS

Indicator	2013	2014 (latest data)
GDP, %	0.0	-3.2 (Q2'2014)
Industrial output, %	-4.7	-7.8 (January-August)
Consumer price growth, %	0.5	14.2 (August 2014, year-on-year)
Producer price growth, %	1.7	24.2 (August 2014, year-on-year)
Balance of trade, USD billions	-20.0	-3.0 (January-August)
Official exchange rate, annual average, UAH/USD	7.99	10.79 (January-August)
Weighted average interbank exchange rate, annual average, UAH/USD	8.12	10.86 (January-August)
Weighted average interbank exchange rate, by year end, UAH/USD	8.15	13.61 (end of August)
Banking system assets, % of growth	13.4	5.1 (January-August)

Source: the State Statistics Service, NBU



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